Money and Credit

Chapter 3 · Economics

Reading Guide · Glossary · Comprehension · Practice Questions · 10 Puzzles

NCERT Companion Workbook · Based on “Understanding Economic Development, NCERT Class X”

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Chapter Overview

This chapter explains how money evolved from barter and commodity money into currency and bank deposits, and why money removes the need for a double coincidence of wants. It then examines credit through contrasting stories, showing how a loan can help a producer expand but can also trap a farmer in debt after a crop failure. The chapter closes by comparing formal sources of credit like banks and cooperatives with informal sources like moneylenders, and highlights self-help groups as a way to bring affordable credit to the poor.

Reading & Study Guide

Section	What to Focus On
Money as a Medium of Exchange	Explain how money removes the need for a double coincidence of wants.
Modern Forms of Money	Trace the shift from metal coins to currency notes and bank deposits.
Loan Activities of Banks	Note how banks use deposits to earn income through lending.
Two Different Credit Situations	Compare why credit helped Salim but harmed Swapna.
Terms of Credit	List the elements that make up the terms of a credit agreement.
Formal Sector Credit in India	Explain why formal credit costs borrowers less than informal credit.
Self-Help Groups for the Poor	Describe how SHGs let poor women borrow without collateral.

Key Terms Glossary

Term	What It Means
BARTER	Direct exchange of goods without using money
CURRENCY	Paper notes and coins issued as legal money
DEPOSIT	Money kept with a bank that can be withdrawn later
CHEQUE	Written instruction to a bank to pay a stated sum
INTEREST	Extra amount paid for the use of borrowed money
LOAN	Sum of money borrowed and repaid over time
CREDIT	Arrangement in which a lender supplies funds for future repayment
COLLATERAL	Asset pledged as security against a loan

DEBT	Amount of money owed to a lender
LENDER	Person or institution that supplies a loan
BORROWER	Person or institution that takes a loan
FORMAL	Regulated credit sources like banks and cooperatives
INFORMAL	Unregulated credit sources like moneylenders
COOPERATIVE	Member-owned institution pooling savings for loans
MONEYLENDER	Individual lending at high interest in the informal sector
RESERVE	Central bank that issues currency and supervises banks
PRINCIPAL	Original sum of money borrowed before interest
REPAYMENT	Act of paying back a loan over an agreed schedule
SAVINGS	Money set aside by members rather than spent
EXCHANGE	Process of trading goods, services or money
WITHDRAWAL	Act of taking money out of a bank account
SUPERVISION	Oversight of banks by the Reserve Bank of India
GRAMEEN	Bangladesh bank known for lending to poor women
BANKRUPT	Unable to repay debts owed

Comprehension Questions

Q1. How does money solve the problem of double coincidence of wants?

Q2. Why are demand deposits considered part of money in the modern economy?

Q3. Compare Salim's and Swapna's experiences with credit, and explain what determined the different outcomes.

Q4. What are the terms of credit, and why do they vary between different lenders?

Q5. Why do banks generally prefer lending to wealthier households over poor households?

Q6. Explain the basic idea behind Self-Help Groups and how they help the rural poor get credit.

Short-Answer Practice (Worked Examples)

Q1. Why is money called a medium of exchange?

Q2. What is collateral?

Q3. Name the two broad categories into which sources of credit are divided.

Q4. Why does the Reserve Bank of India monitor commercial banks?

Q5. What makes Self-Help Group lending different from a moneylender's lending?

Q6. Why did Rama remain dependent on her landowner-employer for credit despite the high interest charged?

Objective Practice

A. Multiple Choice Questions

Circle the correct option.

1. A direct exchange of goods without using money is called

a) credit

b) barter

c) collateral

d) deposit

2. The Reserve Bank of India issues currency notes on behalf of the

a) state government

b) central government

c) commercial banks

d) cooperatives

3. A cheque instructs a bank to pay a stated amount from the

a) payee's account

b) payer's account

c) Reserve Bank's account

d) government's account

4. Banks generally keep what share of deposits as cash reserve according to the chapter?

a) Around 5 per cent

b) Around 25 per cent

c) Around 50 per cent

d) Around 75 per cent

5. In Swapna's case, credit ultimately led to

a) higher profit

b) a debt trap

c) loan waiver

d) new employment

6. Which of these is an example of informal sector credit?

a) Commercial bank

b) Cooperative society

c) Moneylender

d) Regional rural bank

7. An asset pledged as security against a loan is called

a) interest

b) principal

c) collateral

d) deposit

8. A typical Self-Help Group has about how many members?

a) 5-10

b) 15-20

c) 50-60

d) 100-150

9. Grameen Bank, mentioned as a successful model of lending to the poor, operates mainly in

a) India

b) Bangladesh

c) Nepal

d) Sri Lanka

10. Compared to formal lenders, informal lenders in India generally charge

a) lower interest

b) similar interest

c) much higher interest

d) no interest

B. True or False

1. Money eliminates the need for double coincidence of wants.

2. Demand deposits cannot be used to settle payments directly.

3. Banks earn income mainly from the difference between interest charged on loans and interest paid on deposits.

4. Credit always improves a borrower's financial situation.

5. Collateral is required by most formal lenders but often waived by informal lenders who know the borrower personally.

6. The formal sector currently meets all of rural India's credit needs.

7. Self-Help Groups allow poor borrowers to access credit without individual collateral.

8. Richer urban households rely more heavily on informal credit than poorer households do.

C. Match the Following

Column A	Column B
1. Barter	a) Supervises and regulates the banking system
2. Demand deposit	b) Pools savings to lend to members without collateral
3. Collateral	c) Direct exchange of goods without money

4. Reserve Bank of India	d) Bank balance withdrawable at any time
5. Moneylender	e) Situation where repayment becomes nearly impossible
6. Cooperative	f) Asset pledged as loan security
7. Self-Help Group	g) Informal lender charging high interest
8. Debt trap	h) Member-owned institution offering credit

Higher-Order Thinking (HOTS) Questions

Q1. A small trader can get a loan either from a bank at a lower interest rate with paperwork delays, or from a moneylender instantly at a much higher rate. Analyse the tradeoffs the trader faces.

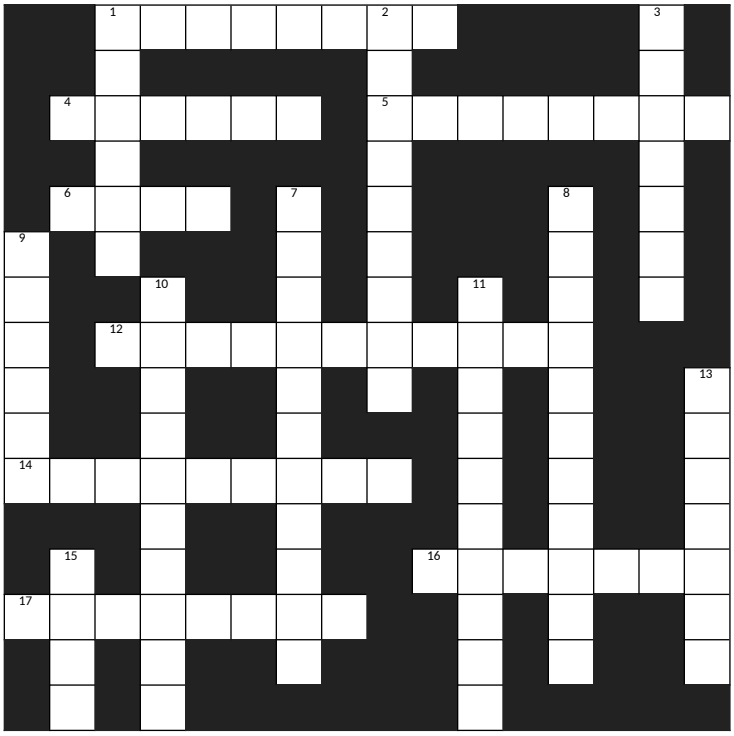
Q2. Explain why expanding formal sector credit, rather than simply banning informal moneylending, is presented as the better solution in the chapter.

Q3. Using the idea of terms of credit, explain why two people borrowing the same amount of money can end up in very different financial positions.

Q4. Why might a bank be more willing to lend to a woman who is a member of a Self-Help Group than to an individual woman with the same income but no group membership?

Puzzle Pack -- 10 Puzzles for This Chapter

1. Crossword



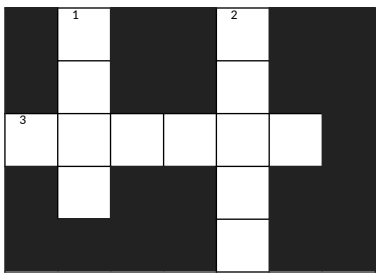
ACROSS

1. Unable to repay debts owed
4. Arrangement in which a lender supplies funds for future repayment
5. Unregulated credit sources like moneylenders
6. Amount of money owed to a lender
12. Member-owned institution pooling savings for loans
14. Act of paying back a loan over an agreed schedule
16. Money set aside by members rather than spent
17. Person or institution that takes a loan

DOWN

1. Direct exchange of goods without using money
2. Original sum of money borrowed before interest
3. Bangladesh bank known for lending to poor women
7. Individual lending at high interest in the informal sector
8. Oversight of banks by the Reserve Bank of India
9. Person or institution that supplies a loan
10. Asset pledged as security against a loan
11. Act of taking money out of a bank account
13. Money kept with a bank that can be withdrawn later
15. Sum of money borrowed and repaid over time

2. Mini Crossword



ACROSS

3. Direct exchange of goods without using money
4. Amount of money owed to a lender

DOWN

1. Sum of money borrowed and repaid over time
2. Written instruction to a bank to pay a stated sum

3. Word Search

N	C	O	O	P	E	R	A	T	I	V	E	O	L	A
Q	C	H	S	N	G	T	I	D	E	R	C	A	N	T
D	N	L	X	O	R	L	C	H	C	H	M	S	N	E
E	F	A	X	I	A	E	Q	D	E	R	G	E	L	C
B	P	R	T	S	M	N	J	Q	O	N	M	O	R	L
T	R	E	S	I	E	D	U	F	I	Y	A	E	E	A
Y	I	T	E	V	E	E	S	V	A	N	D	U	G	W
C	N	A	R	R	N	R	A	P	R	N	I	D	N	A
N	C	L	E	E	K	S	E	E	E	N	E	H	A	R
E	I	L	T	P	X	R	W	L	F	P	O	O	H	D
R	P	O	N	U	E	O	Y	O	O	U	F	A	C	H
R	A	C	I	S	R	E	R	S	K	L	F	W	X	T
U	L	L	R	R	N	M	I	C	P	U	H	D	E	I
C	O	T	O	O	A	T	R	E	S	E	R	V	E	W
W	P	B	M	L	T	P	U	R	K	N	A	B	N	V

Find: BANKRUPT · BORROWER · CHEQUE · COLLATERAL · COOPERATIVE · CREDIT · CURRENCY · DEBT · DEPOSIT · EXCHANGE · FORMAL · GRAMEEN · INFORMAL · INTEREST · LENDER · LOAN · MONEYLENDER · PRINCIPAL · REPAYMENT · RESERVE · SAVINGS · SUPERVISION · WITHDRAWAL

4. Cryptogram

Each letter was replaced by another. Crack the code.

LZUKV EKFDWIKC JWEMKE, WUX IEKXBM IWU RKDF ZE MEWF W JZEEZNKE.

5. Caesar Coded Message

Every letter is shifted by the same amount. Find the shift.

VXWNH JWM LANMRC. VXWNH ANYUJLNB KJACNA, JWM LANMRC LJW QNUY XA CAJY J KXAAXFNA.

6. Word Scramble

Unscramble each set of letters using the clue.

1. ATBPUKRN -- Unable to repay debts owed

2. LAON -- Sum of money borrowed and repaid over time

3. LARNPCIIP -- Original sum of money borrowed before interest

4. IRTCED -- Arrangement in which a lender supplies funds for future repayment

5. SASNVGI -- Money set aside by members rather than spent

6. NRAEMEG -- Bangladesh bank known for lending to poor women

7. RCOEAVTOPEI -- Member-owned institution pooling savings for loans

8. IUIERSSVONP -- Oversight of banks by the Reserve Bank of India

9. DETB -- Amount of money owed to a lender

10. DNERLE -- Person or institution that supplies a loan

7. Acrostic

The highlighted letters spell a theme.

C _ _ _ _ _ _ _ _ Paper notes and coins issued as legal money

O _ _ _ _ _ _ _ Money kept with a bank that can be withdrawn later

L _ _ _ _ Sum of money borrowed and repaid over time

L _ _ _ _ _ _ Person or institution that supplies a loan

A _ _ _ _ _ _ Direct exchange of goods without using money

T _ _ _ _ _ _ _ _ Extra amount paid for the use of borrowed money

E _ _ _ _ _ _ _ _ Process of trading goods, services or money

R _ _ _ _ _ _ _ Central bank that issues currency and supervises banks

A _ _ _ _ _ _ _ _ _ _ Asset pledged as security against a loan

L _ _ _ _ _ _ Regulated credit sources like banks and cooperatives

8. Match the Pairs

Match Column A with Column B.

Column A	Column B
A. BORROWER	1. Sum of money borrowed and repaid over time
B. DEBT	2. Person or institution that takes a loan
C. GRAMEEN	3. Amount of money owed to a lender
D. LOAN	4. Person or institution that supplies a loan
E. LENDER	5. Act of taking money out of a bank account
F. MONEYLENDER	6. Bangladesh bank known for lending to poor women
G. WITHDRAWAL	7. Member-owned institution pooling savings for loans
H. COOPERATIVE	8. Individual lending at high interest in the informal

sector

9. Fill in the Blanks

Fill each blank.

1. Regulated lenders such as banks belong to the _____ sector of credit.
2. The extra amount paid for the use of borrowed money is called _____.
3. Trading goods directly without using money is called _____.
4. Paper notes and coins authorised by the government are called _____.
5. Unregulated lenders such as moneylenders belong to the _____ sector of credit.
6. An asset pledged as security against a loan is called _____.
7. A written order instructing a bank to pay a stated sum is a _____.
8. A group that pools members' savings to provide loans without collateral is a self-help _____.

10. Odd One Out

Circle the item that does not belong.

1. Cooperative Bank Moneylender Regional rural bank
2. Demand deposit Barter Currency Cheque payment
3. Collateral Weather Documentation Interest rate
4. Arun Swapna Rama Salim